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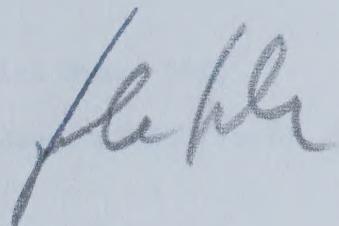
CABLE ADDRESS "BROSBUR" — TELEX NUMBER 02-2208
TWX 610-491-1730

44 KING STREET W.
TORONTO 1
368-7585

CHARLES F. W. BURNS
CHAIRMAN
D. S. BEATTY
PRESIDENT

MEMBERS OF
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F A L C O N B R I D G E N I C K E L M I N E S L T D.

February 10, 1966

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F A L C O N B R I D G E N I C K E L M I N E S L T D.

Capitalization - 4,890,807 shares

32.3% owned by McIntyre Porcupine Mines Ltd.

Current Price: \$105 Indicated Dividend: \$3.50 Yield: 3.33%

Price Range:	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
High	\$ 113	\$ 112 1/2	\$ 88 3/4	\$ 66	\$ 68 1/4	\$ 73
Low	105	82	59 1/4	50 1/4	44	37 3/4
Earnings Per Share	\$6.57 Est.	\$5.40	\$5.12	\$2.94	\$4.11	\$4.49

Note: Falconbridge changed to the deferred tax accounting method of recording income taxes in 1965.

S U M M A R Y

Falconbridge Nickel Mines Ltd. reported record earnings in 1965, mainly as a result of increased dividend income. As a result of the extremely high copper prices on the London Metal Exchange two of Falconbridge's subsidiaries, La Luz Mines Ltd. and Kilembe Copper Cobalt Ltd. experienced excellent earnings in 1965 and both companies significantly increased their dividends to Falconbridge. Lake Dufault also contributed \$1.75 in dividends in 1965 - \$0.76 per Falconbridge share. Other dividend increases came from Alminex Ltd., Opemiska Copper Mines (Quebec) Ltd. and McIntyre Porcupine Mines Ltd.

Cont'd. . .

S U M M A R Y, Cont'd.

Falconbridge's nickel operations probably experienced a slight decline in earnings in 1965 despite higher copper deliveries and higher copper prices. Improved prices for cobalt and precious metals were also received in 1965.

For 1966 there is an excellent possibility of increased dividends from most of Falconbridge's holdings. Copper on the L. M. E. averaged 93.4¢ a pound on February 2nd and there is no sign as of yet that the problems affecting the copper industry are being solved. Record earnings and dividend payout from La Luz and Kilembe should result from this buoyant copper market. Dividend increases in 1966 are also expected from Alminex, Dominion Magnesium, Lake Dufault and Opemiska.

In 1966 the nickel operations should benefit again from increased copper prices. However, the most important contribution to nickel operations will be the Strathcona mine which will come on stream in late 1967 and enable Falconbridge to increase nickel deliveries to over 100 million pounds annually.

Another important source of future revenues is Wesfrob Mines Ltd. which comes on stream in late 1966. Contracts for all mine production have been signed for 10 years and this wholly-owned subsidiary should make a significant contribution to earnings in 1967 and beyond.

Thus, for 1966 we expect Falconbridge to report record earnings for the third consecutive year. Also with Wesfrob coming on stream in 1966 and Strathcona expected in 1967, a solid base of earnings will be established for the Company. We recommend purchase of Falconbridge for long-term capital appreciation.

FALCONBRIDGE NICKEL MINES LTD.

Probable Makeup of 1965 Earnings and

The Outlook For 1966 and Beyond

The indirect effect of extraordinarily high copper prices on the London Metal Exchange and dividends from Lake Dufault Mines Ltd. resulted in Falconbridge showing an excellent increase in earnings for 1965. For the year the average price for prompt copper on the L. M. E. was 62.7¢ per lb. with the fourth quarter in excess of 73¢ per lb. As a result of these prices, the earnings of La Luz and Kilembe Copper, two Falconbridge subsidiaries, have been extremely good in 1965 and thus dividends to Falconbridge have been increased considerably.

In 1964 Falconbridge received the following dividends from subsidiaries:

Kilembe Copper Cobalt Ltd.	\$0.75 x 3,004,827 =	\$ 2,253,620
La Luz Mines Ltd.	\$2.00 x 1,001,254 =	2,002,508
Alminex Ltd.	\$0.10 x 3,863,871 =	386,387
Industrial Minerals of Canada Ltd.	\$0.50 x 610,932 =	305,466
Dominion Magnesium Ltd.	\$0.50 x 263,004 =	<u>131,502</u>
	TOTAL	\$ 5,079,483

Note: The number of shares shown as owned by Falconbridge was at December 31, 1964. Due to small changes that occurred in these share holdings during 1964, the above total differs slightly from the \$5,023,000 shown in the 1964 annual report.

For 1965 the following dividends have been paid to Falconbridge by its subsidiary companies:

Lake Dufault Mines Ltd.	\$1.75 x 2,111,630 =	\$ 3,695,353
Kilembe Copper Cobalt Ltd.	\$1.20 x 3,004,827 =	3,605,792
La Luz Mines Ltd.	\$3.50 x 1,001,254 =	3,504,389
Alminex Ltd.	\$0.12 x 3,863,871 =	463,665
Industrial Minerals of Canada Ltd.	\$0.50 x 610,932 =	305,466
Dominion Magnesium Ltd.	\$0.25 x 263,004 =	<u>65,751</u>
	TOTAL	\$11,640,416

Note: The actual reported total may differ slightly from this figure as a result of a change in the number of shares owned by Falconbridge.

Thus, subsidiary dividends have increased by \$6,617,416 or based on the 4,890,807 shares outstanding as of December 9, 1965, they have increased on a per-share basis from \$1.03 per share to \$2.38. As these earnings are tax-free, these per-share totals directly form a part of Falconbridge's reported per-share total.

In 1964 Falconbridge received the following dividends from other companies:

Giant Yellowknife Mines Ltd.	\$1.00 x 1,080,809 =	\$ 1,080,809
Marbridge Mines Ltd.	\$0.365 x 1,500,000 =	547,500
McIntyre Porcupine Mines Ltd.	\$1.80 x 175,825 =	316,485
Opemiska Copper Mines Ltd.	\$0.55 x 1,993,236 =	1,096,280
United Keno Hill Mines Ltd.	\$0.70 x 1,195,989 =	837,192
		<hr/>
	TOTAL	\$ 3,878,266

Note: This total differs slightly from the \$3,877,000 in the 1964 annual report as a result of changes during 1964 in the number of shares owned by Falconbridge.

The dividends from these other companies in 1965 should approximate the following:

Giant Yellowknife Mines Ltd.	\$1.00 x 1,080,809 =	\$ 1,080,809
Marbridge Mines Ltd.	\$0.40 (Est.) x 1,500,000 =	600,000
McIntyre Porcupine Mines Ltd.	\$2.40 x 175,825 =	421,980
Opemiska Copper Mines Ltd.	\$0.75 x 1,993,236 =	1,494,927
United Keno Hill Mines Ltd.	\$0.30 x 1,195,989 =	358,797
	<hr/>	
	TOTAL	\$ 3,956,513

Note: This total could differ from the actual reported total as a result of a change in Falconbridge's share ownership of these companies.

These dividends represent an increase of \$78,247 over 1964. On a per-share basis (based on 4,890,807 shares) these dividends represent \$0.81 per share as opposed to \$0.79 in 1964.

Thus, combining the dividends from Falconbridge's subsidiary and other companies, they should approximate \$3.19 per share in 1965 as compared with \$1.83 per share in 1964. In addition, Falconbridge receives considerable income from its investment in short-term securities. In 1964 this area produced \$2,155,000 in income. At June 30, 1965 the income figure from this area was \$1,022,000 up \$71,000 from June 30, 1964. For 1965 as a whole, the income from short-term securities should amount to \$2.2 million, or \$0.45 per share. This income is, of course, taxable but the tax rate, which will be discussed later, should be low in 1965 and thus most of this money will flow through to net earnings.

In addition to the above sources, Falconbridge receives other income from its wholly-owned subsidiaries not engaged in nickel operation. These companies are Anyox Metals Limited, Fahrallloy Canada Ltd., and Lakefield Research of Canada Ltd. In 1964 the total net earnings from these companies amounted to \$1,012,000. The largest single contributor was Fahrallloy Canada Ltd. which earned \$878,000 before taxes in 1964. At June 30, 1965 the net earnings of these companies amounted to \$672,000, up considerably from the \$279,000 earned as of June 30, 1964. For the full year 1965, we are estimating net earnings of \$1.6 million for these companies.

A summary of these four sources is as follows:

Earnings (net) of wholly-owned subsidiaries not engaged in nickel operations	\$ 1,600,000
Dividends Received from:-	
Partially-owned subsidiaries	11,640,416
Other Companies	3,956,513
Income from investments in short-term securities	<u>2,200,000</u>
	TOTAL
	<u>\$ 19,396,929</u>

This total is comparable to the \$12,067,000 earned from these areas in 1964 and the \$6,122,000 earned in 1963. If the charges for interest, exploration, and research and process development are attached to the nickel operations, then in 1965 the after-tax earnings of these four areas should exceed those of the nickel operations.

As far as the nickel operations are concerned, results from this area should be slightly below those of 1964. In 1964 Falconbridge increased its nickel deliveries by 47% to 78,485,000 lbs. However, deliveries exceeded production by 11,951,000 lbs. and inventories were drawn down in value by approximately 43%. As a result of this drawdown, nickel deliveries for 1965 are expected to be below 1964 in spite of an increased production rate. However, increased deliveries of copper at higher prices and increased revenue from precious metals should combine to make the operating profit from nickel operations before providing for development expenditures and depreciation almost equal to the results obtained for 1964.

In 1964 Falconbridge delivered 25,102,000 lbs. of copper and these deliveries were limited by production as the Company did not have an excess of inventory at the beginning of 1964. As a result of increased production in 1965, copper deliveries should approximate 28 million lbs. More important than the increased deliveries have been the price changes in the metal. For the year 1964 the Canadian producer price of copper averaged 33.3¢. Two price increases occurred in that year, from 31.5¢ to 32.75¢ and from 32.75¢ to 35¢. Copper started 1965 at 35¢ but did not remain there long. In early May the producer price went from 35¢ to 38.5¢. Then, in the middle of November, our producer price was raised again from 38.5¢ to 40.75¢. Finally, early in January, it was raised again to 45¢ where

it presently stands. It should be pointed out that Falconbridge does not sell any of its copper at Canadian prices but rather all production is sold at the foreign producer price which presently stands at 42¢ U. S. (45.5¢ Cdn.). However, the changes in our Canadian producer price are just a reflection of changes in the foreign producer price. The average for 1965 should be at least 4¢ above that of 1964. Based on 1964 production of 25 million lbs., every 1¢ increase will add \$250,000 to Falconbridge's operating profit in its nickel operation and thus the total effect of the price rise in copper should add about \$1 million to the 1965 operating profit from the nickel operations.

Fairly significant price increases occurred in some of Falconbridge's other metal production such as platinum and cobalt. Cobalt rose 15¢ - 20¢ U. S. per lb. in 1965 for various classifications of the materials. The producer's price for platinum in 1965 averaged \$97.583 U. S. per ounce in the U. S. as compared with \$87.985 U. S. in 1964. The dealer prices at the end of 1965 were \$150 - \$160 per ounce. These increases will have a favourable effect on the 1965 operating profit of the nickel operations as these metals are by-products of the nickel production.

Development expenditures in the nickel operations have increased in 1965 and at June 30, 1965 they stood at \$958,000 up \$738,000 from the same period in 1964. These are exclusive of any Strathcona expenditures as these expenses are put in the preproduction classification until the mine gets into production. For the year 1965 it is estimated these development expenditures will total \$2.1 million.

The other write-off associated with the nickel division is depreciation. At June 30, 1965 depreciation (including net gain or loss on disposal of fixed assets) totalled \$1,267,000, down \$19,000 from the same period in 1964. For the year 1965 very little change is expected in this figure and thus \$2.4 million will be used as the write-off.

Thus, the operating statistics of the nickel operations are estimated as follows:

	<u>1965 Est.</u>	<u>1964</u>
Operating profit from nickel operations before providing for development expenditures and depreciation	\$ 27,000,000	\$ 27,305,000
Development expenditures	2,100,000	898,000
Depreciation (including net gain or loss on disposal of fixed assets)	<u>2,400,000</u>	<u>2,408,000</u>
Operating profit from nickel operations	<u>\$ 22,500,000</u>	<u>\$ 23,999,000</u>

Three more figures must be arrived at before we can come to a pre-tax earnings estimate for 1965. These are interest on long-term liabilities, expenditures on exploration and expenditures on research and process development. On August 15, 1965 another \$1 million of the 5 1/4% first mortgage and collateral trust sinking fund bonds was redeemed leaving \$1 million to be redeemed in 1966. As a result the interest charges in 1965 should amount to \$85,000 down from the \$171,000 paid in 1964.

Falconbridge stepped up its exploration activity in 1965 and at June 30, 1965 \$1,416,000 had been spent in this area, \$347,000 more than in the same period of 1964. Exploration activity was very active in the second half of 1965 with work taking place on D'Eldona Gold Mines's property in Rouyn township, Quebec, Falconbridge's nickel property in the Ungava and in other areas in Manitoba, Ontario and Quebec. For the year 1965 we estimate that Falconbridge spent \$3 million on exploration.

Expenditures on research and process development also showed a substantial increase in the first half of 1965. Expenditures to June 30, 1965 totalled \$1,439,000, up \$525,000 from the same period in 1964. For the full year of 1965, we estimate that \$2.5 million will be spent in this area.

Thus, the earnings statement of Falconbridge for 1965 should approximate the following:

	<u>1965 Est.</u>	<u>1964</u>
Operating profit from nickel operations before providing for development expenditures and depreciation	\$ 27,000,000	\$ 27,305,000
Development expenditures	2,100,000	898,000
Depreciation (including net gain or loss on disposal of fixed assets)	<u>2,400,000</u>	<u>2,408,000</u>
Operating profit from nickel operations	\$ 22,500,000	\$ 23,999,000
 <u>Other Income:-</u>		
Earnings (net) of wholly-owned subsidiaries not engaged in nickel operations	\$ 1,600,000	\$ 1,012,000
 <u>Dividends Received From:-</u>		
Partially-owned subsidiaries	\$ 11,640,000	\$ 5,023,000
Other Companies	3,957,000	3,877,000
Income from investment in short-term securities	<u>2,200,000</u>	<u>2,155,000</u>
	\$ 41,897,000	\$ 36,066,000
 <u>Other Deductions from Income:-</u>		
Interest on long-term liabilities	\$ 85,000	\$ 171,000
Expenditures on exploration	3,000,000	2,243,000
Expenditures on research and process development	<u>2,500,000</u>	<u>2,187,000</u>
Earnings before taxes based on income	\$ 36,312,000	\$ 31,465,000
 Earnings before taxes per share (based on 4,890,807 shares in 1965 and 4,871,258 shares in 1964)	\$7.42	\$6.46

Thus, for 1965, earnings per share before taxes are estimated at \$7.42 up \$0.96 from the 1964 figure. These results have been achieved despite the fact that the contribution from nickel operations should be below that of 1964. This contribution will change quite significantly in the upcoming years as a result of development expenditures made in 1965 and those to be made this year and next, and even more so as a result of the Strathcona mine coming on stream in 1967. Also important for the future have been the increased expenditures made on exploration and on research and process development. If the expenditures on development, exploration and research and process development had remained the same in 1965 as in 1964, \$2,388,000 or \$0.49 per share would have been added to the 1965 pre-tax earnings figures.

Finally, the tax-rate has to be estimated for 1965. For the year 1964 income taxes as a percentage of earnings before tax stood at 20.7%. At June 30, 1965 this percentage was 8.4% and compared with 23.5% in the first half of 1964. However, these tax percentages are rather meaningless as a good portion of the earnings before taxes total consists of non-taxable dividends. Also, the earnings of the wholly-owned subsidiaries not engaged in nickel operations are included in the accounts net of taxes. Therefore, some adjustments have to be made to the accounts before a tax rate can be calculated. These adjustments consist of taking the total earnings before taxes and subtracting the dividends from partially-owned subsidiaries and other companies and the earnings of the wholly-owned subsidiaries not engaged in nickel operations.

The results are as follows:

	<u>1965 Est.</u>	<u>1964</u>
Earnings before taxes based on income	\$ 36,312,000	\$ 31,465,000
<u>LESS:</u>		
Dividends from partially-owned subsidiaries	11,640,000	5,023,000
Dividends from other companies	3,957,000	3,877,000
Earnings of wholly-owned subsidiaries not in nickel operations	1,600,000	1,012,000
 Taxable Earnings	 \$ 19,115,000	 \$ 21,553,000

Thus, despite the fact that earnings before taxes will have increased \$4,847,000 in 1965, taxable earnings should be down \$2,438,000. This results from the fact that most of the increase in revenues will come from the non-taxable dividend area and increased expenditures have been made on exploration and research and process development. Using the \$6.5 million paid for taxes in 1964, the effective tax rate was thus 30.2%. If an adjustment is made for the \$2.5 million in taxes that were deferred as a result of claiming for tax purposes depreciation and pre-production expenditures greater than the amounts written in the Companies' accounts, then the normalized tax rate would have been 41.8%.

If this adjustment were made to the first half results of 1964 and 1965, the results would be as follows:

	<u>1965 Est.</u>	<u>1964</u>
Earnings before taxes based on income	\$ 16,027,000	\$ 14,471,000
<u>LESS:</u>		
Dividends from partially-owned subsidiaries	3,646,000	1,118,000
Dividends from other companies	1,922,000	1,870,000
Earnings of wholly-owned subsidiaries not engaged in nickel operations	<u>672,000</u>	<u>279,000</u>
Taxable earnings	\$ 9,787,000	\$ 11,204,000
Estimated taxes	1,353,000	3,404,000
Estimated effective tax rate	13.8%	30.4%

The effective tax rate was down 16.6% at the half mainly as a result of a 6 1/2-fold increase in preproduction expenditures. Preproduction expenditures totalled \$5,460,000 at June 30, 1965 up \$4,622,000 from the similar 1964 period. Most of these expenses were related to preparing Wesfrob Mines and the Strathcona mine for eventual production. It is estimated that preproduction expenditures in the second half of 1965 ran close to the \$3 million level.

In 1964 the effective tax rate reported at the half (30.4%) was very close to that reported for the full year (30.2%). If the effective tax rate for 1965 remains similar to the first half figure (13.8%) and our estimate of taxable earnings is correct (\$19,115,000), then Falconbridge should report taxes of \$2,637,870. Subtracting this figure from the expected \$36,312,000 earnings before taxes, after-tax earnings would be \$33,674,130, or \$6.89 per share (based on 4,890,807 shares). The following table will demonstrate the effect of varying tax rates:

Estimated Earnings Before Taxes	Effective Tax Rate (E.T.R.)	Estimated Taxes.		Per Share After-Tax Earnings (4,890,807 shs.)
		E.T.R. x Est.	Taxable Income of \$19,115,000	
\$36,312,000	13.8%	\$2,637,870	\$ 33,674,130	\$6.89
\$36,312,000	15.0%	\$2,867,250	\$ 33,444,750	\$6.84
\$36,312,000	20.0%	\$3,823,000	\$ 32,489,000	\$6.64
\$36,312,000	25.0%	\$4,778,750	\$ 31,533,250	\$6.45

Thus, if our earnings estimates for the various categories are correct, then Falconbridge's effective tax rate in 1965 must have been between 20% - 25% producing the reported figure of \$31,797,000 after-tax earnings.

Falconbridge announced a change in accounting practices for the 1965 year. The deferred tax accounting method of recording income taxes was adopted and as a result, the reported earnings were \$5.40 with \$1.10 in deferred taxes. The Company undoubtedly has adopted this method in view of the very high expenditures that will be associated with Wesfrob and Strathcona.

Looking ahead to 1966, copper prices on the London Metal Exchange will largely determine whether another record year can be recorded. Presently, indications are that they will remain at very high levels for some time. On January 26, 1966 the L. M. E. reached an all time high of 89.7¢ and the 3-month forward price climbed to 85.7¢.

The problems that have skyrocketed the L. M. E. quotations are far from being solved. Presently the United States, Canada, Japan and Great Britain all have export controls on copper. These controls mean less metal for the L. M. E. market and more customers since the foreign buyers must turn to the L. M. E. for their copper supplies. Kennecott's El Teniente mine in Chile has been on strike since January 3 and the loss of this metal is hurting the already critical world shortage situation. Then of course the black cloud of Zambia will hang over the L. M. E. market until the tense situation in neighbouring Rhodesia is cleared up. Zambia is the second largest copper producing nation in the world (17% of total) and any serious interruption of this source would send L. M. E. prices to astronomical heights.

Falconbridge's Nicaraguan subsidiary, La Luz Mines Ltd., has already completed almost four months of the fiscal year 1966 (fiscal year ends September 30, 1965) and has benefitted from the extremely high copper prices during this time.

For the first four months of La Luz's 1966 fiscal year the average copper price has exceeded the 1965 fiscal year by a good margin as shown in the following table:

	<u>Year Ended Sept. 30/65</u>	<u>Year Ended Sept. 30/66</u>	<u>Increase</u>
October	65.6¢	68.0¢	2.4¢
November	67.7¢	71.2¢	3.5¢
December	61.2¢	73.6¢	12.4¢
January	<u>48.4¢</u>	<u>81.4¢</u>	<u>33.0¢</u>
Average	<u>60.7¢</u>	<u>73.6¢</u>	<u>12.9¢</u>

La Luz's annual production is in the order of 20 million lbs. and thus if a 10¢ increase in the average price of copper were recorded for the year about \$2 million would be added to pre-tax earnings. Using a 30% tax rate the after-tax effect would be \$1.4 million or \$0.88 per La Luz share. This 10¢ figure does not seem unreasonable when you examine the L. M. E. prices of 1965. In 1965 the L. M. E. market started off very erratically and the average copper prices in the first three months were not very high (compared with today's market) - Jan. - 48.4¢, Feb. - 56.8¢, Mar. - 59.8¢. Let us assume that the L. M. E. averages 75¢ for February and March. This would mean an average of 74.0¢ for La Luz's first six months and it would represent an increase of 14.1¢ over the previous fiscal year's first six months. In the last six months of La Luz's 1966 fiscal year the L. M. E.

would have to average 68¢ to produce an average 10¢ higher than achieved in the year ended September 30, 1965. This 68¢ figure may appear high but let us not forget that the L. M. E. has only been below this figure briefly since October and that the present quotation is more than 20¢ above it.

La Luz earnings and dividends record has been as follows:

Year Ended September 30th	<u>1964</u>	<u>1965</u>	<u>1966</u>
(preliminary)			
Earnings	\$2.27	\$3.88	
Dividends	\$0.75	\$3.25	\$1.50

The earnings for 1965 are understated due to the fact that 4.4 million pounds of the 22.1 million pound production for the year had no fixed settlement price on it as of September 30, 1965 and was valued in the accounts at 62¢ per lb. Assuming La Luz actually will receive 10¢ a lb. more than the 62¢ figure and the tax rate on this incremental revenue was 30%, then an additional $\$440,000 \times 0.70 = \$308,000$, or \$0.19 per share, should be added to the \$3.88 figure. La Luz earned \$1.20 per share (excluding copper price adjustments) in the quarter July - September. In this quarter copper prices on the London Metal Exchange averaged around 59¢. The present earnings rate is more in the order of \$1.50 per quarter. Certainly present indications are that the \$3.50 paid to Falconbridge in 1965 can be maintained in 1966 and there is an excellent chance that it can be exceeded.

The other Falconbridge subsidiary that sells copper on the L. M. E. is Kilembe Copper Cobalt Ltd. Kilembe earned \$1.28 in the first nine months of 1965 but this was after a credit adjustment of \$1,150,000 on metal settlements outstanding at the end of 1964. However, included in the nine-month figures were 8.4 million lbs. of copper for which there was no settlement price. This was valued at the three-month forward price of 56.3¢ and the final settlement on this metal should more than offset the credit mentioned above. Kilembe should earn in the order of \$2.00 in 1965. Earnings and dividends for Kilembe for the past three years have been as follows:

	<u>1963</u>	<u>1964</u>	<u>1965</u>
Earnings	\$0.07	\$1.07	\$2.00 Est.
Dividends	\$0.25	\$0.75	\$1.20

At present L. M. E. copper prices, Kilembe should be earning in the order of \$0.85 per quarter. With the present three-month future of copper so high, (85¢) Kilembe should experience at least a full quarter of exceptional earnings and possibly more.

In Kilembe's six-month statement it was stated that the Company decided to modify its previous policy of distributing all income received by the way of dividends. The most significant factors leading to this decision were the uncertain future trend of world copper prices and the Company's inability at that time to assess the changes in foreign exchange controls made by Uganda Government on Kilembe Copper Cobalt's subsidiary Kilembe Mines Ltd. If our earnings estimate is correct, then Kilembe will be in a very healthy cash position at the end of 1965. At the end of 1964 the Company had \$2.35 million or \$0.61 per share in cash and short-term securities. With the expected 60% payout in 1965, the cash position of Kilembe should be approximately three times the 1964 figures. Given the cash position of the Company and the present earnings rate, Kilembe should be able to maintain the \$1.20 dividend paid in 1965 and if L. M. E. prices continue at present levels, then this dividend could easily be exceeded.

As for the Canadian operations, Lake Dufault Mines Ltd. should increase its dividend rate in 1966. In 1964 Dufault had a cash flow of \$2.89 million. For the first nine months of 1965 Lake Dufault's cash flow was \$13.53 million. The cash flow in the last quarter should approximate \$4 million giving a total of \$17.53 million for the year. Thus, by the end of 1965 a total cash flow of \$20.42 million will have been generated. From this amount the \$6 million in debt will be repaid leaving \$14.42 million. Allowing the \$420 thousand for capital expenditures this would leave \$14 million available for distribution in dividends. In 1965 \$1.75 per share or \$7.25 million was paid by Lake Dufault in dividends, leaving an excess of \$6.75 million that still can be distributed. In 1966, mainly as a result of a lower grade mill feed, the earnings of Lake Dufault should show a decline. Improved copper prices, however, should offset this factor somewhat.

Using a grade of mill feed as follows, Cu - 3.5%, Zn - 6.0%, Ag - 2.00 oz./ton, Au - 0.03 oz./ton and Cd - 0.35 lb./ton., earnings for 1966 could approximate the following:

Tons ore milled	480,000
Grade of mill feed	3.5% Cu 6.0% Zn

Metals in concentrates:-

Copper, pounds	32,256,000
Zinc, pounds	43,200,000
Gold, ounces	14,400
Silver, ounces	960,000
Cadmium, pounds	175,200

Gross value of production:-

Copper @ 45.0¢/lb.	\$14,515,200
Zinc @ 14.5¢/lb.	6,264,000
Gold @ \$38/ounce	547,200
Silver @ \$1.40/ounce	1,344,000
Cadmium @ \$3/lb.	525,600
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	\$23,196,000

Smelting, refining and freight	<u>9,600,000</u>
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	\$13,596,000

Operating Costs	<u>1,776,000</u>
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	\$11,820,000

Depreciation & Amortization	2,042,900
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Exploration & Development expenditures	\$ 500,000
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Provision for mining taxes - 13%	<u>1,272,900</u>
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	\$ 8,004,200
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Per-share earnings	\$ 1.94
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Cash flow per share	\$ 2.56
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With \$6.75 million or \$1.63 per share available for dividends from prior years and our estimate of cash flow of \$2.56 per share in 1966, Lake Dufault should be able to pay a dividend in the order of \$2.50 in 1966.

Thus, the three largest contributing subsidiaries, La Luz, Kilembe and Lake Dufault all appear able to maintain their 1965 dividend rates and certainly in the case of Lake Dufault, that rate should be exceeded.

As far as the other Canadian subsidiaries are concerned, Alminex should increase its rate from \$0.12 to \$0.14, Industrial Minerals can maintain its \$0.50 rate and it is possible that Dominion Magnesium can resume a \$0.50 rate up from the 1965 payment of \$0.25.

The dividend outlook for Falconbridge's other companies is less encouraging. Opemiska, the largest holding both in the number of shares and dividend contribution should have an excellent year in 1966. In the first nine months of 1965 Opemiska earned \$0.59 per share on an average settlement price of copper of 35.7¢. In the third quarter the profits were \$0.19 per share on an average settlement price of \$37.7¢ per pound of copper. At 45¢ copper Opemiska should be able to earn in excess of \$0.25 per quarter. The Company has maintained a high payout ratio in the last 3 years and with the likelihood of this policy being continued, Opemiska could increase its dividend from the \$0.75 paid in 1965 to the \$0.90 level in 1966.

Giant Yellowknife, the second largest dividend contributor of the other companies, experienced lower profits in 1965 as a result of lower gold and silver production but mainly as a result of income taxes. Earnings at the end of nine months in 1965 were \$0.69 vs. \$0.87 in 1964. Taxes accounted for \$0.13 of the \$0.18 drop in profits. Despite the fact that the Company will not earn it, the \$1.00 dividend was maintained in 1965. At the end of 1964 Giant Yellowknife had \$7.48 million in cash and short-term securities. With this liquid position, the Company could maintain the \$1.00 dividend for some time even though earnings should be slightly below this level.

The future earnings of Giant Yellowknife are difficult to predict on a year-to-year basis. The Company has still about 2 million tons of ore grading approximately 0.74 ounces per ton. However, much of this developed ore occurs in irregularly shaped orebodies which present physical problems in mining. Erratic swings in the mine production grade may occur in the future. Despite this possibility, it is unlikely that the dividend would be cut very substantially in any one year. With the Company's cash position, a gradual reduction is more likely.

The next three largest contributors in order of importance are Marbridge Mines, McIntyre Porcupine and United Keno Hill Mines. Marbridge is a low tonnage, high-grade nickel operation located in La Motte township in Quebec. At the end of 1964 the Company had enough reserves for at least two years operation and recent additions will extend the life another year. A dividend in the order of \$0.40 should be paid in 1966 and this could be increased if the grade of nickel stays high for the full year.

Certainly the \$2.40 dividend paid by McIntyre Porcupine in 1965 can be maintained in 1966. Falconbridge has raised its dividend each year for the past three years (1963 - \$2.50, 1964 - \$2.80, 1965 - \$3.50) and each year McIntyre has followed suit (1963 - \$1.60, 1964 - \$1.80, 1965 - \$2.40). If London Metal Exchange prices stay well up for the greater part of 1966, there is an excellent chance that the Falconbridge and McIntyre dividends could be raised again.

The future of United Keno is the most difficult to predict of Falconbridge's other companies. A shortage of skilled labour at the mine seriously curtailed 1965 results to the extent that at the end of nine months earnings per share were only \$0.03 down from \$0.70 in the same period of 1964.

The Company has reserves at the mine with excellent grades of silver, lead and zinc sufficient for about 4 years production. The mine can be very profitable if full scale operations can be resumed. A program for plant rehabilitation and for the upgrading and expansion of camp facilities started early in 1965 and will be continued into 1966. However, the success of this program is not known. Present indications are that 1966 will be another difficult year for United Keno and probably no dividends will be paid. This, however, represents a loss to Falconbridge of only \$359,000 (1965 Falconbridge share of dividends).

In summary the 1966 dividends from Falconbridge's subsidiaries could approximate the following:

Lake Dufault	\$2.50 x 2,111,630 =	\$ 5,279,075
Kilembe Copper Cobalt Ltd.	\$1.75 x 2,938,327* =	5,142,072
La Luz Mines Ltd.	\$4.00 x 1,001,254 =	4,005,016
Alminex Ltd.	\$0.14 x 3,863,871 =	540,942
Industrial Minerals of Cda. Ltd.	\$0.50 x 610,932 =	305,466
Dominion Magnesium Ltd.	\$0.50 x 263,004 =	131,502
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	TOTAL	\$15,404,073

* Falconbridge disposed of some of its Kilembe holdings in 1965.

As far as the other companies are concerned 1966 dividends could approximate the following:

Opemiska Copper Mines Ltd.	\$0.90 x 1,993,236 =	\$1,793,912
Giant Yellowknife	\$1.00 x 1,080,809 =	1,080,809
McIntyre Porcupine Mines Ltd.	\$2.40 x 174,825 =	419,580
Marbridge Mines Ltd.	\$0.40 x 1,500,000 =	<u>600,000</u>
	TOTAL	\$3,894,301

These dividend figures are comparable to the \$11,640,416 from subsidiary companies and the \$3,956,513 from other companies which were estimated earlier for 1965. Combining the two dividend totals, Falconbridge should receive approximately \$19.3 million in 1966 or \$3.95 per share. This would represent a \$0.76 increase over our estimated 1965 total.

Looking at the nickel operations, no significant increase in earnings is expected here. Higher nickel deliveries will be offset by lower copper deliveries. Higher copper prices should account for most of the gain. For the year 1965 the European copper price averaged 36.5¢ U. S. (Falconbridge's price basis). Presently the European price stands at 42¢ U. S. or 45.5¢ Cdn. With copper deliveries estimated at 25 million lbs. in 1966, the 6 cent increase should add \$1.5 million to Falconbridge's operating profit from nickel operations. It is estimated that development expenditures and depreciation expense will remain at 1965 levels and thus an operating profit of \$24.0 million is expected for 1966.

Fahr alloy Canada Ltd. should account for most of the expected increase in income from wholly-owned subsidiaries not engaged in nickel operations. Fahr alloy will start construction of a \$2.5 million plant early this spring and it is expected to be in operation by November. The new plant will be the Company's third and will double the Company's production of centrifugally cast tubing and shell moulded castings.

Wesfrob Mines Ltd., another wholly-owned subsidiary is expected to begin shipments of iron and copper concentrates towards the end of 1966. A sales contract for the output has been signed with Mitsubishi Shoji Kasha. This agreement calls for annual shipments of 550,000 tons of pellet feed (65% iron) and 400,000 tons of sinter feed (62% iron) annually. Mitsubishi had the option to increase its annual purchases by 10%. It is our understanding that this option has been taken and that annual shipments of over 1 million tons of iron concentrates will result. In addition, about 4,750 tons of copper concentrates can be shipped annually for the first 7 years.

The proved ore reserves of Wesfrob at the end of 1964 were 25 million tons grading 41.33% iron. Of this total No. 3 zone contained about 6.8 million tons grading 47.65% iron and 0.66% copper. In addition, surface diamond

drilling has indicated about 15 million tons of probable ore grading 44.7% iron to the west of the main ore zone. These ore reserves suggest a life of about 20 years for the mine.

Using an estimated price of \$11 per ton for pellet feed, \$10 per ton for sinter feed and 45¢ Cdn. per pound for copper Wesfrob should generate the following approximate annual earnings.

Iron Revenues:-

600,000 tons of pellet feed @ \$11 per ton	=	\$ 6,600,000
450,000 tons of sinter feed @ \$10 per ton	=	4,500,000

Copper Revenues:-

9,500,000 lbs. of copper @ \$0.45 - \$0.08 for refining	=	<u>3,515,000</u>	
		TOTAL REVENUES	<u>\$14,615,000</u>
Operating Costs			5,000,000
Amortization & Depreciation			<u>3,000,000</u>
Net profit before taxes			\$ 6,615,000

The copper revenues are expected to last for about 7 years and of course the mine is tax-free for the first three years. In 1966 we expect net profit from Wesfrob should approximate \$1,000,000. Thus, combining Wesfrob with the present companies earnings (net) of wholly-owned subsidiaries not engaged in nickel operations should approximate \$3 million.

Using these various estimates Falconbridge's 1966 earnings statement could approximate the following:

Operating profit from nickel operations	\$ 24,000,000
<u>Other Income:-</u>	
Earnings (net) of wholly-owned subsidiaries not engaged in nickel operations	3,000,000
<u>Dividends received from:-</u>	
Partially-owned subsidiaries	15,404,000
Other companies	3,894,000
	\$ 46,298,000
<u>Other Deductions:-</u>	
Interest on long-term liabilities	33,000
Expenditures on exploration	4,000,000
Expenditures on research and process development	3,000,000
Earnings before taxes	\$ 39,265,000
Per Share (4,890,807 shares)	\$ 8.03

Due to heavy expenditures on Strathcona and Wesfrob in 1966 we expect a further decrease in the effective tax rate. The taxable income in 1966 should approximate the following:

Earnings before taxes	\$ 39,265,000
<u>LESS:-</u>	
Dividends from partially-owned subsidiaries	15,404,000
Dividends from other companies	3,894,000
Earnings (net) of wholly-owned subsidiaries not engaged in nickel operations	3,000,000
Taxable earnings	\$ 16,967,000
Full tax-rate	42%
1966 Taxes	\$ 7,126,140
Earnings before taxes	39,265,000
Earnings after taxes	\$ 32,138,860
Earnings per share	\$ 6.57

Therefore, it is expected that Falconbridge's earnings will show a good increase again in 1966. Looking ahead further, the full effect of Wesfrob will be felt in 1967 and in late 1967 Strathcona will come on stream.

The Strathcona mine should push nickel deliveries over the 100 million figure. It is expected that either an expansion at the Norwegian refinery or that a new nickel refinery will have to be built in Canada to accommodate this expansion.

In our opinion, Falconbridge shares trading presently at \$105 are undervalued in today's market considering the growth potential of this Canadian mining complex. We recommend the purchase of Falconbridge for long-term capital appreciation.

Research Department,

BURNS BROS. AND DENTON LIMITED

February 10, 1966

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